

of LECs' BFP and concluded that BellSouth had correctly calculated its BFP costs which included a return at the 11.25% rate of return prescribed by the Commission's rules.⁴¹ Thus, even if the Commission determines that revenues (or revenue requirement at the achieved return) should be used to calculate the exogenous impact of line port costs, the impact could only be applied to adjust the traffic sensitive and common line PCIs - not BellSouth's BFP cost per line or the resulting multi-line business SLC cap. Alternatively, if the Commission somehow should determined to require, pursuant to the appropriate rulemaking proceeding, a recalculation of the BFP based upon the achieved return, in lieu of an 11.25% return, for BellSouth the result would be a substantially lower BFP and multi-line business SLC cap than at present. Thus, the result of an "achieved return" approach would still be that the impact of the exogenous cost change to the common line basket for line ports would be an increased cap for charges to interexchange carriers but not to end users.

III. TRANSPORT ADJUSTMENT ISSUES

A. COE Maintenance and Marketing Cost Adjustments

The Commission is investigating whether or not price cap LECs made the proper COE maintenance and marketing cost adjustments to the TIC.⁴² The Commission requires price cap LECs to justify the amounts removed from the trunking basket and the TIC in particular and to explain the basis on which the amount removed from the TIC was determined. It seeks comments on whether the amounts removed from the TIC should be based upon "the relative revenues in each category or the relative switched access revenues in each category, or on a more

⁴¹ 1997 Annual Filing Investigation Order, paras. 19-102.

⁴² Designation Order, paras. 67-68.

detailed analysis of the source of the costs.”⁴³ The Commission also seeks comment on its tentative conclusion that these cost changes should be removed from the TIC “as it existed prior to July 1, 1997.”⁴⁴

The Access Reform Order stated that marketing expenses must be removed by means of a downward exogenous adjustment to the PCIs for the common line, traffic sensitive and trunking baskets for all rate elements in these baskets other than for those associated with special access services.⁴⁵ BellSouth therefore calculated the exogenous cost change for the trunking basket by determining the amount of marketing expense associated with special access services to be left in the trunking basket and moving the remaining transport services’ marketing expense to the newly created marketing basket. The special access marketing expense was determined, from the 1996 ARMIS 43-01 Report,⁴⁶ to be \$20.383 million. As is shown in BellSouth’s filing, this is the amount which remains in the trunking basket after the exogenous cost change was made.⁴⁷ The marketing expense downward exogenous cost change in the trunking basket of \$16.574 million represents the trunking basket marketing expense which is not associated with special access services.⁴⁸ In other words, this is the marketing expense associated with switched transport services.

⁴³ Id. para. 67.

⁴⁴ Id. para. 68.

⁴⁵ Access Charge Reform Order, para. 323.

⁴⁶ 1996 ARMIS 43-01 Report, page 7, line 140, column (s).

⁴⁷ Transmittal No. 434, Appendix B, Exhibit 6, page 3, line 29, column (S).

⁴⁸ Transmittal No. 434, Appendix B, Exhibit 6, Page 3, line 29, column (R).

The transport marketing expense was appropriately allocated to the TIC and to the dedicated and tandem service bands within the trunking basket based on the respective percentage of switched transport revenues in the service bands, as Appendix C, Exhibit 1, attached hereto, shows. As shown on this exhibit, the amount removed from the TIC was \$7,519,913 which agrees with the amount included in BellSouth's filing.⁴⁹

The use of switched transport revenues to determine the relative allocations was appropriate because only switched transport marketing expenses were being allocated. To allocate the impact of this exogenous change based upon total trunking revenues (including special access service revenues) would not appropriately match the marketing expenses being allocated (those associated with trunking minus special access services) with the revenues generated as a result of those expenditures.

The methodology used to determine the COE maintenance expense exogenous change for each basket is discussed and documented in BellSouth's filing.⁵⁰ Once the trunking basket downward exogenous amount of \$32,674,484 was determined, a portion of this amount was then allocated to the TIC. Since, unlike the marketing expenses discussed above, this expense could not be associated with any particular service category (dedicated transport or tandem-switched transport) within the trunking basket, it was allocated to the TIC based on total basket revenues according to the mechanics of the Commission-approved TRP and as illustrated in Appendix C, Exhibit 2, attached hereto. As can be seen, this methodology first removed from the total TIC revenues⁵¹ the various facilities-based downward exogenous cost changes applied to the TIC on

⁴⁹ Transmittal No. 434, Appendix B, Exhibit 4, line 9.

⁵⁰ Transmittal No. 434, Appendix B, para. 1.5 and Exhibit 7.

⁵¹ Id., line 1.

January 1, 1998,⁵² the marketing expense reallocation,⁵³ and the residual TIC.⁵⁴ The result was determined by the TRP to be the amount of the COE reallocation attributable to the TIC.⁵⁵ The remaining portion of the trunking basket COE reallocation amount was allocated to the various service categories and sub-categories in the trunking basket based upon proportional revenues.

BellSouth disagrees with the Commission's tentative conclusion that the marketing expense and COE maintenance expense exogenous changes should be allocated to the TIC as it existed prior to July 1, 1997. The use of the June 30, 1997 TIC to allocate COE maintenance and marketing expense is a new concept which was not part of the Commission's Access Reform Order or the TRP. While it is true that in at least one instance, the Access Reform Order provided specific details on how to calculate the TIC exogenous cost changes,⁵⁶ it did not do so here. Following this pattern, if the Commission had intended the June 30, 1997 TIC be used to allocate these expenses, it would have (and should have) indicated as such in the order. More significantly, LECs did not unilaterally determine the approach to allocate exogenous cost

⁵² Appendix C, Exhibit 2, lines 3 through 9.

⁵³ Id., line 10.

⁵⁴ Id., line 2.

⁵⁵ As Appendix C, Exhibit 2 shows, the amount on line 2, \$78,636,285, decreased slightly with BellSouth's Transmittal No. 435. This was due to the impact of the GSF change included in that transmittal. When BellSouth filed its Transmittal No. 435, BellSouth properly included the GSF impact, but it did not submit a new Appendix B, Exhibit 4, TIC-WP showing it. Therefore, BellSouth is providing as Exhibit 3 to Appendix C, attached hereto, the revised exhibit. The GSF change had no impact on the COE maintenance exogenous cost change allocated to the TIC.

⁵⁶ See, e.g., Access Reform Order, para. 197, wherein the Commission discusses the specific manner in which the exogenous cost changes should be determined for removing tandem switching revenue requirement amounts from the TIC so that past X-factor reductions would be realized.

changes. Traditional TRP methodology provides for the use of TRP data from the most recent filing, not an even earlier filing. The TRP methodology is a reasonable one, and its use of the July 1, 1997 TIC is consistent both with past practice as well as with the lack of any specific direction by the Commission in the Access Reform Order to do otherwise. The Commission cannot penalize LECs for having followed this methodology.

B. Adjustments to TIC for 9000 Minutes of Use

The LECs' original tandem-switched transport rates were established at the end of 1993 with their Local Transport Restructure ("LTR") tariff filings.⁵⁷ The initial rates for tandem-switched transport were based upon factors such as the LEC's 1992 DS3 and DS1 special access rates and fiber-copper ratios, and an assumed 9000 minutes of use per voice grade circuit.⁵⁸ The TIC was residually priced after removal of certain revenues, including the resulting tandem-switched revenues⁵⁹

The Access Reform Order required LECs to recalculate tandem-switched transport rates, to be effective January 1, 1998, and to recalculate the TIC accordingly.⁶⁰ The Commission now indicates that it expected this recalculation to result in an increase to tandem-switched transport rates and a lowering of the TIC but that, instead, LECs have increased the TIC and lowered their

⁵⁷ See *In the Matter of Local Exchange Carrier Switched Local Transport Restructure Tariffs, Order*, 9 FCC Rcd 400 (1993) ("LTR Tariff Order").

⁵⁸ *In the Matter of Transport Rate Structure and Pricing*, CC Docket No. 91-213, *Report and Order and Further Notice of Proposed Rulemaking*, 7 FCC Rcd 7006 (1992) ("LTR Order"), paras. 55-59; 47 C.F.R. Section 69.111(c) and LTR Tariff Order, paras. 3, 25, 35-56.

⁵⁹ *Id.* and 47 C.F.R. Section 69.124.

⁶⁰ Access Reform Order, paras. 206-209. 47 C.F.R. 69.111.

tandem-switched transport rates.⁶¹ The Commission attributes this to the fact that LECs have recalculated tandem-switched transport rates based not only upon actual circuit loadings but also based upon current switched access DS3 and DS1 rates and current fiber/copper ratios. The Commission tentatively concludes that LECs, for their Access Reform filings under investigation here, should have recalculated tandem-switched transport updating only their circuit loadings while retaining the fiber/copper ratios and DS3 and DS1 rates from their LTR filings.⁶²

As a preliminary matter, the Commission is wrong that BellSouth's recalculation of tandem-switched transport rates in the filings at issue here increased the TIC and lowered tandem-switched transport rates. As BellSouth explained in its Reply to Transmittal No. 434, an analysis of the impact of BellSouth's recalculation of tandem-switched transport rates on the TIC is incomplete without considering the revenues associated with tandem-switched transport common DS3/1 multiplexers.⁶³ The Commission apparently forgets the fact that the initial tandem-switched transport rates developed for LTR did, in fact, include one common DS3/1 multiplexer.⁶⁴ The LTR Order stated that distance-sensitive tandem-switched transport rates shall have

two charges related to transmission...: a nondistance-sensitive per-minute charge and a distance-sensitive per-minute charge. The nondistance-sensitive charge would recover the costs of certain circuit equipment at the ends of the interoffice transmission path....This equipment shall include the multiplexing equipment needed to interconnect DS3 transmission facilities with the end office switch.⁶⁵

⁶¹ Designation Order, paras. 76-77.

⁶² Id., paras. 78-89.

⁶³ BellSouth's Reply on December 17, 1997, p. 13.

⁶⁴ In the Designation Order, the Commission rejected BellSouth's assertion that a DS3/1 multiplexer had been included in TST rates established with LTR. Designation Order, para. 80.

⁶⁵ LTR Order, para. 56 and n. 113.

In the LTR Tariff Order, the Commission observed that LECs were required to include one multiplexing charge in their tandem-switched transport rates, and observed that BellSouth has complied.⁶⁶ The Access Reform Order required LECs to establish a separate per minute of use (“MOU”) rate element for the DS3/1 multiplexers between the tandem and the end office separate and apart from the tandem-switched transport rate element.⁶⁷ Two DS3/1 multiplexers are involved: one at the tandem, on the end office side of the tandem, and one at the end office, on the tandem side of the end office. Only one of these was included in BellSouth’s LTR-based tandem-switched transport rates.⁶⁸ Thus, in establishing the new Access Reform common DS3/1 MOU multiplexer rate element in the filings at issue here, BellSouth had to make a downward exogenous change to tandem-switched transport rates to remove the single multiplexer included at LTR in tandem-switched transport rates, and a corresponding upward exogenous cost change to the TIC. At the same time, a downward exogenous cost change was made to the TIC to remove the two common DS3/1 multiplexers associated with the new Access Reform DS3/1 MOU rate element, and a corresponding upward exogenous cost change to the tandem-switched transport service category was made to include the two common DS3/1 multiplexers there.⁶⁹ The

⁶⁶ LTR Tariff Order at para. 54 and n. 112.

⁶⁷ 47 C.F.R Section 69.111(I)(I).

⁶⁸ See Appendix D, Exhibit 1, line 9. This exhibit provides the calculation of tandem-switched transport rates with BellSouth’s LTR filing in 1993 and shows the inclusion of one DS3/1 common multiplexer. See also Appendix D, Exhibit 6, “I. 1993 LTR Filing,” which shows one DS3/1 multiplexer included in the tandem-switched transport rates and one remaining in the TIC.

⁶⁹ Appendix D, Exhibit 6, “II. December 17, 1997 Access Reform Filing,” shows both the DS3/1 multiplexer in the LTR tandem-switched transport rates and the DS3/1, multiplexer in the LTR TIC moving to the new Access Reform DS3/1 multiplexer rate element.

total impact of these multiplexer-related changes was a net decrease in the TIC of the costs associated with the one common DS3/1 multiplexer or \$6,013,124, as Appendix D, Exhibit 4, attached hereto, shows.⁷⁰ As that exhibit also shows, the total exogenous change to the TIC (based on the multiplexer-related changes as well as the reinitialization of tandem-switched transport rates) was a decrease in the amount of \$9,836,291.⁷¹ Of this, \$3,823,167 is the result of the reinitialization itself excluding the impact of the multiplexers.⁷²

At the same time, tandem-switched transport rates (without the multiplexers) were increased as a result of the recalculation based upon current circuit loadings, current DS3/1 rates, and the current fiber/copper ratio. When the pre-Access Reform Facilities Termination per MOU rate (which included one DS3/1 multiplexer) is compared to the Access Reform filed Facilities Termination MOU rate plus one-half of the DS3/1 Common multiplexer MOU rate (representing one DS3/1 multiplexer), the latter rate is the higher.⁷³

⁷⁰ This is the cost of one common DS3/1 multiplexer. Appendix D, Exhibit 4, n. 2 and 4.

⁷¹ Appendix D, Exhibit 4, lines 5 and 6.

⁷² Id., line 3.

⁷³ Id., Exhibit 5, line 8. The exogenous cost change for the common DS3/1 multiplexers had a much greater impact on the TIC and tandem-switched transport than the recalculation based upon the updated circuit loadings, rates and fiber/copper ratio. As Appendix D, Exhibit 5 shows, the per minute mile tandem-switched transport rate (which did not include any multiplexers either at LTR or with Access Reform) remained the same before and after the recalculation due to rounding (compare Appendix D, Exhibit 5, lines 1 and 2). In contrast, the pre-Access Reform Facilities Termination rate (which included one common DS3/1 multiplexer) was .00036, whereas the filed Access Reform Facilities Termination rate (which did not include any DS3/1 multiplexers) was .000258. See Appendix D, Exhibit 5, lines 3 and 4. If one common DS3/1 multiplexer (one-half of the common DS3/1 MOU rate) of .000378, or .000189, is added to the Access Reform filed Facilities Termination MOU rate, the LTR rate and the Access Reform rate can be viewed on a comparable basis. As can be seen, the Access Reform Facilities Termination MOU rate (plus the one common DS3/1 multiplexer MOU rate) of .000447 is higher than the previous LTR-based Facilities Termination rate (which included one DS3/1 multiplexer) of .00036.

As can be seen, the Commission's preoccupation with a perceived decrease in tandem-switched transport rates and a corresponding increase in the TIC due to the tandem-switched transport recalculation is, at least for BellSouth, baseless, and no further analysis should be needed. Nevertheless, the Commission tentatively reaches the conclusion that tandem-switched transport rates should have been recalculated based only upon updated circuit loadings. It basis this view on a tortured construction of Section 69.111(c) and 69.1(c) of its rules, stating that Section 69.111(c) only applied to price cap LECs for purposes of computing their "initial charges for new rate elements" in 1993 with LTR.⁷⁴ This could only be sustained if the recalculation of tandem-switched transport rates for Access Reform involves neither the computation of "initial charges" nor "new rate elements."

Tandem-switched transport, however, can be viewed as a "new rate element," and the recalculation as the establishment of "initial rates." This is the first time that tandem-switched transport rates are being established without the inclusion multiplexers. Given this fact, the multiplexer included at the time of LTR had to be removed (and sent to the new multiplexer rate elements), new tandem-switched transport rates had to be reestablished (with adjustments to the TIC as appropriate), and the new mutliplexer rate element established (using the multiplexer removed from the LTR tandem-switched transport and the additional multiplexer removed from the TIC). This is just what BellSouth did. More importantly, if the Commission's tentative view were correct that price cap LECs are not to recalculate their tandem-switched transport rates pursuant to 69.111(c), then there would be no access rule applicable to price cap LECs requiring or governing the method for recalculating tandem-switched transport rates. In sum, BellSouth

⁷⁴ Designation Order, para. 78, citing 47 C.F.R. Section 69.1(c).

believes that it has properly interpreted the access charge rules and has used the appropriate methodology for recalculating its tandem-switched transport rates under investigation here.

In the event, however, that the Commission determines to adopt its tentative conclusion, BellSouth provides in Appendix D, Exhibits 1, 2 and 3 attached hereto, the relevant calculations.⁷⁵ Exhibit 1 shows the tandem-switched transport rate calculation as filed and effective January 1, 1994 with LTR.⁷⁶ Exhibit 2 shows what the LTR tandem-switched transport rate calculation would have been had the current 1997 actual per circuit loadings of 7290 been used, but all other factors stayed the same as filed with LTR.⁷⁷ As can be seen the Exhibit 2 calculation results in a higher tandem-switched transport rate. Exhibit 3 calculates the change to the TIC which would result from the Exhibit 2 calculation as (2.0410%). Applying this percentage change to the current TIC, the downward exogenous adjustment suggested by the Commission in its Designation Order⁷⁸ would be \$6,125,208, and a corresponding upward exogenous adjustment to the tandem-switched transport service category would be made in the same amount.

The amount of this adjustment would be too great, however, because it would result in the removal of one too many multiplexers from the TIC and the inclusion of one too many multiplexers in tandem-switched transport. As BellSouth has described above, the LTR-based

⁷⁵ Designation Order, para. 79.

⁷⁶ As can be seen, this calculation includes one weighted DS3 multiplexer. This is the one multiplexer remaining after BellSouth revised its initial LTR filing, as is noted in the Commission's LTR Tariff Order, at para. 54 and n. 112.

⁷⁷ Because the LTR calculation includes one multiplexer (Exhibit 1), BellSouth is also including one multiplexer on Exhibit 2.

⁷⁸ Designation Order, para. 79.

multiplexer needed to be removed from tandem-switched transport and included in the TIC, while at the same time the two common DS3/1 multiplexers had to be removed from the TIC and included in tandem-switched transport as the new DS3/1 common multiplexer MOU rate element. The Commission's recalculation would not take into consideration that BellSouth has already done this and would improperly retain the LTR-based multiplexer cost in the tandem-switched transport rates.⁷⁹ As the costs associated with the one multiplexer is approximately \$6 million,⁸⁰ the net result is a wash, and no changes are necessary.

IV. RECOVERY OF NEW UNIVERSAL SERVICE SUPPORT OBLIGATIONS

The Commission is investigating LECs' methodologies for allocating universal service fund ("USF") contributions among the common line, interexchange and trunking baskets and, for trunking, within that basket to the various service categories. As the Commission notes, USF amounts were required to be allocated only to service categories which generate end user revenues.⁸¹ Each LEC is required to explain the methodology it used and the assumptions it made in determining the allocations. If the proportions of revenues reported on the Form 457 by basket are different from the proportions used to allocate the USF across the baskets the LEC is required to explain the difference.

In the filings at issue here, BellSouth allocated its USF obligation to the common line, trunking and interexchange baskets based upon the respective percentage of end user revenue

⁷⁹ As Appendix D, Exhibit 6, "III. Designation Order - Paragraph 79" shows, the resulting tandem-switched transport rates would include one DS3/1 multiplexer even though BellSouth has already included two DS3/1 multiplexers in the new Access Reform DS3/1 multiplexer rate element.

⁸⁰ Appendix D, Exhibit 4, lines 2 and 4.

⁸¹ Designation Order, para. 91 and Access Reform Order, para. 379 and n. 571.

obtained from internal company records. The allocations are shown in Appendix E, Exhibit 1, attached hereto. For the common line and interexchange baskets, the percentage of end user revenues was easily determinable. For common line, the end user revenues consist of all subscriber line charges and special access surcharge revenues billed to end users. For the interexchange basket, all revenues were assumed to be end user revenues.

The USF exogenous cost change for the trunking basket had to be made by service category within the basket. Information regarding end user revenues within a given service category could only be determined through internal company records. To obtain trunking revenue by service category, access billing revenue was obtained through the Billed Carrier Access Tracking System ("BCATS"), which is based on the Carrier Access Billing System's ("CABS") Billing Data Tapes. BCATS data is available by access customer, rate element and central office. BellSouth Carrier Services maintains a list of access customers and divides these customers into account tiers -- two of which represent end user access customers. BCATS incorporates the account tier list into its database, thus making access billing data available by account tier and, thus, for end users as opposed to other customers.

Special access revenue for the two end user account tiers was obtained from BCATS for the year 1996 by rate element and central office. Rate elements billed under zone pricing were placed into density zones based on a cross-reference of the element's central office with information available in the NECA #4 Tariff. Finally, end user special access revenues were summarized for each service category within the trunking basket.

BellSouth did not use its Form 457 to determine the USF allocations for its Access Reform tariff filing. As a preliminary matter, the allocations which BellSouth was required to

make for this filing were necessarily based upon 1996 revenues, whereas the Form 457 amounts were revenues for the first half of 1997.⁸² Thus, two different accounting periods are involved. Secondly, Form 457 itself did not provide the level of detail needed to allocate the exogenous change to various service categories. In fact, BellSouth has discovered that Form 457 was completed with the incorrect assumption that all access revenues are received from entities which themselves contribute to the universal service fund and that all access revenues are therefore properly excludable from the amounts on which BellSouth's contribution is based.⁸³ Thus, neither Form 457 nor the assumptions underlying it would have provided a proper basis for allocating the USF exogenous cost change for BellSouth Access Reform filing.

In any event, BellSouth believes that it has properly allocated the USF exogenous cost changes based upon the best information available to it, which provided detailed data regarding end user revenue by service category, sub-category and zone, and that the Commission has no basis for requiring any change to either this process or the result. Additionally, given that different LECs could have different means of identifying and tracking end user revenues, BellSouth does not believe that it would be appropriate for the Commission to require all LECs to use the same methodology, as long as a reasonable allocation method is used.

⁸² In the Matter of Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service, CC Docket Nos. 97-21 and 96-45, *Report and Order and Second Order on Reconsideration*, 12 FCC Rcd. 18400 (1997), Appendix C, FCC Form 457, Universal Service Worksheet, and instructions attached thereto.

⁸³ BellSouth intends to correct the reported revenues once the analysis is completed regarding the appropriate revenues to be included.

V. CONCLUSION

As is fully demonstrated by the foregoing, the Commission should not require BellSouth to revise the tariff filings under investigation. BellSouth has shown that its definitions of primary and non-primary lines are reasonable. Moreover, given the need for the Commission to abandon the distinction altogether, which BellSouth urges the Commission to do in its Defining Primary Lines proceeding, the Commission should permit the retention of existing definitions until the rule itself is eliminated.

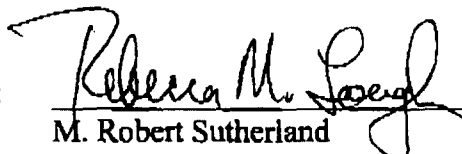
For the quantification of the exogenous cost changes, BellSouth has shown that it has followed the Commission's required methodology, where such has been specified, and otherwise has used reasonable methodologies. For the one service for which rates, and therefore revenues, were already established, those revenues were used. Otherwise, a revenue requirement analysis based upon the 11.25% authorized rate of return was used, an approach which is fully supported by historical exogenous cost changes which the Commission has approved. In any event, if the Commission nevertheless requires a change, any such change should not affect the calculation of the BFP.

For COE maintenance and Marketing expense, as well as the USF allocation, BellSouth has shown that the appropriate allocations have been made. Finally, for the recalculation of tandem-switched transport rates, BellSouth has demonstrated that it used the appropriate factors and methodology.

In light of the foregoing, the Commission should conclude its investigation of BellSouth's Transmittal Nos. 434 and 435, concluding that there is no basis for requiring changes to be made by BellSouth.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

By: 
M. Robert Sutherland
Richard M. Sbaratta
Rebecca M. Lough

Their Attorneys

Suite 1700
1155 Peachtree Street, N.E.
Atlanta, Georgia 30309-3610
(404) 249-3390

Date: February 27, 1998

APPENDIX A
EXHIBIT 1

BellSouth Direct Case 2/27/98
Criteria In Determining Line Counts

BELLSOUTH DIRECT CASE 2/27/98
CRITERIA IN DETERMINING LINE COUNTS

Line Type	I. Line Count Data Formulation					II. Line Count Data Identification			
	Quantity	Sources	Data Search	Collection	Time Period	First	Second	Third	Fourth
Primary Residential Lines*	161,022,932	D1, D3	S2	C2	T2 - Annual 96	L2	A0/R5		
Single Line Business	6,237,476	D1, D3, D8**	S1	C2	T2 - Annual 96	L0, B3	N0		
Non-Primary Residential Lines	15,514,466	D1, D3, D8***	S1	C2	T2 - Annual 96	L2	A0/R5		
BRI -ISDN Lines	426,424	D1, D3	S1	C2	T2 - Annual 96	N0			

NOTES:

* Excludes Lifeline

D8** In preparation for Access Reform the PCCC/SLC Teams identified business lines which were billed the Single Line SLC (9LM 3.50) but should have been billed the Multiline SLC (9ZR 6.97). The lines which were incorrectly billed the Single Line SLC represent 4.4% of the total Single Line Business lines. Since this reclassification is the result of inconsistencies that have accumulated over time, the 1996 Single Line Business count utilized in the 12/97 Access Reform Filing was reduced by 4.4% to reflect this study. The Multiline Business line count was increased by a like amount.

D8*** In preparation for the incremental SLC billing of additional lines, a study was performed to identify customer records which inappropriately contained the ADL FID. The number of lines which were incorrectly designated as "Additional" represent 5.4% of the total additional lines. Since this reclassification is the result of inconsistencies that have accumulated from 1972-1997, the 1996 Additional Line count utilized in the 12/97 Access Reform Filing was reduced by 5.4% to reflect this study. The Primary Residential line count was increased by a like amount.

APPENDIX A
EXHIBIT 2

BellSouth Direct Case 2/27/98
Implementation of Residential Line Definitions

**BELLSOUTH DIRECT CASE 2/27/98
IMPLEMENTATION OF RESIDENTIAL LINE DEFINITIONS**

Customer	Billing/ Account No.	Line Location	Phone Numbers	Installation Date (Order)	Service/Inv. Work Order No.	Billing Address	P/NP Results
N. Adams	555-111 6789	123 Elm #1	555-1111 555-1112	1/1/96 (1) 1/1/96 (2)	6789-1111 6789-1112	P.O. Box 123	P NP
P. Adams	555-2222 6789	123 Elm #1	555-2221 555-2222	5/5/96 4/5/96	6789-2221 6789-2222	P.O. Box 123	NP NP
P. Adams	555-3333 4567	123 Elm #2	555-3333	3/3/96	4567-3333	P.O. Box 123	P
P. Boyd-Adams	555-4444 5678	123 Elm #2	555-4444 555-4448	4/5/96 7/5/96	5678-4444 5678-4448	P.O. Box 123	NP NP
F. Boyd-Adams	555-4447 5878	123 Elm #2	555-4447	5/5/96	5878-4447	P.O. Box 123	NP

APPENDIX B

EXHIBIT 1

BellSouth Direct Case 2/27/98

**Summary Of Exogenous Cost Changes Prior To
Access Charge Reform**

BELLSOUTH DIRECT CASE 2/27/98

SUMMARY OF EXOGENOUS COST CHANGES PRIOR TO ACCESS CHARGE REFORM

	<u>Filing Date</u> (A)	<u>Docket Number</u> (B)	<u>Transmittal Number</u> (C)	<u>Exogenous Change</u> (D)	<u>Exogenous Change Methodology</u> (E)
1	3/1/93	CC 86-10	94	800 DATA BASE	A
2	6/17/93	DA 92-222	121	GSF, FCC Rule 69.307(c)	A
3	9/30/96 & 12/11/96	RM-8181, CC 96-388	370, 385	PAY TELEPHONE SET DEREGULATION	B
4	6/30/97	CC 80-286	411A	OTHER BILLING AND COLLECTION	A
5	6/30/97	CC 93-129	411A	800 DATABASE REFUND	A

Exogenous Change Methodology Definitions

- A** The exogenous cost change amount was determined by computing an annual revenue requirement at 11.25%. As defined in 47 C.F.R. Section 69.2(c), the "annual revenue requirement" is the sum of a "return component" and an "expense component". The "return component" is defined in 47 C.F.R. Section 69.2 (ff) as the net investment attributable to a particular element or category multiplied by the authorized annual rate of return.
- B** This was a Commission prescribed methodology. A revenue requirement for payphone sets to be deregulated and for the Common Line Basket was calculated. The payphone allocator, computed as the ratio of payphone sets to Common Line revenue requirements, minus one, was applied to R amounts obtained from Form CLPC-A, Line 6 to calculate the exogenous cost change made to the Common Line Basket.

APPENDIX B
EXHIBIT 2

BellSouth Direct Case 2/27/98
Revenue Requirement Exogenous Cost Summary
As Filed In The 11/26/97 and 12/17/97 TRP Filings
(Transmittals 434 & 435)

BELLSOUTH DIRECT CASE 2/27/98

REVENUE REQUIREMENT EXOGENOUS COST SUMMARY
AS FILED IN THE 11/26/97 AND 12/17/97 TRP FILINGS (Transmittals 434 & 435)

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
\$0 FCC 97-158 ACCESS CHARGE REFORM COST SHIFT SUMMARY		Traffic Sensitive				Common Line	Marketing	Trunking				IXC	
		Local	Signal Transfer Points	Trunk Ports	Undesig- nated	Total	Total	Tandem	Dedicated	TIC	Undesig- nated	Total	
1	DS0 EO Trunk Ports	(9,090,769)		9,090,769									
2	DS1 EO Trunk Ports	(3,044,101)		3,044,101									
3	Line Ports	(107,492,738)				107,492,738							
4	Excess ISDN Basic Ln Ports	(1,237,071)				1,237,071							
5	Excess ISDN Primary Ln Ports	(539,378)				539,378							
6	DS0 Dedicated Tan Trunk Ports							1,708,230		(1,708,230)			
7	DS1 Dedicated Tan Trunk Ports							329,027		(329,027)			
8	DS3/DS1 Mux							4,837,949		(4,837,949)			
9	DS1/VG Mux							1,208,460	1,418,946	(2,627,406)			
10	STP Port Term		4,016,545						(4,016,545)				
11	SS7 Link	843,315						(168,663)		(674,652)			
12	STP Investment	1,636,590						(327,318)		(1,309,272)			
13	80% of Tandem Switch							14,918,018		(14,918,018)			
14	Shared DS3/DS1 Muxes & TST Reinitialization							9,836,291		(9,836,291)			
15	DS1/VG Mux Analog EO			1,748,955						(1,748,955)			
16	Host Remote Links							3,047,975		(3,047,975)			
17	COE				68,553,670	(37,879,952)					(32,674,484)	2,000,767	
18	USF LTS					(69,733,304)							
19	USF					105,056,102			6,377,630			1,690,430	
19a	VGWATS, MT, TGH								1,245,370				
19b	Audit & Video								404,418				
19c	High Cap & DDS								691,545				
19d	DS-1 Sub Cat								307,910				
19e	Density Zone 1								871,260				
19f	Density Zone 2								283,289				
19g	Density Zone 3								311,516				
19h	DS-3 Sub Cat								1,859,515				
19i	Density Zone 1								279,885				
19j	Density Zone 2								92,135				
19k	Density Zone 3								30,787				
20	Marketing				(10,066,860)	(92,275,420)	118,916,000	(2,608,271)	(6,445,536)	(7,519,913)			
20a	VGWATS, MT, TGH								(67,898)				
20b	High Cap & DDS								(1,737,894)				
20c	DS-1 Sub Cat								(49,349)				
20d	Density Zone 1								(827,504)				
20e	Density Zone 2								(382,379)				
20f	Density Zone 3								(1,315,764)				
20g	DS-3 Sub Cat								(22,472)				
20h	Density Zone 1								(1,014,424)				
20i	Density Zone 2								(374,843)				
20j	Density Zone 3								(653,010)				

Note: This has been updated from the TRP filings (Transmittals 434 & 435) to include ISDN BRI and PRI exogenous change corrections which BellSouth plans to file March 4, 1998.

APPENDIX B
EXHIBIT 3

BellSouth Direct Case 2/27/98
Revenue Exogenous Summary

BellSouth Direct Case 2/27/98
Calculation Of Exogenous Changes Using A
Revenue Methodology

BELLSOUTH DIRECT CASE 2/27/98

REVENUE EXOGENOUS SUMMARY

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
	\$0	Traffic Sensitive				Common Line	Marketing	Trunking				IXC
FCC 97-158 ACCESS CHARGE REFORM COST SHIFT SUMMARY		Local	Signal Transfer Points	Trunk Ports	Undesig-nated	Total	Total	Tandem	Dedicated	TIC	Undesig-nated	Total
1 DS0 EO Trunk Ports		(13,073,289)		13,073,289								
2 DS1 EO Trunk Ports		(4,377,600)		4,377,600								
3 Line Ports		(154,586,160)				154,586,160						
4 Excess ISDN Basic Ln Ports		(1,779,005)				1,779,005						
5 Excess ISDN Primary Ln Ports		(775,563)				775,563						
6 DS0 Dedicated Tan Trunk Ports								1,494,108		(1,494,108)		
7 DS1 Dedicated Tan Trunk Ports								287,711		(287,711)		
8 DS3/DS1 Mux								3,385,121		(3,385,121)		
9 DS1/VG Mux								845,520	992,790	(1,838,311)		
10 STP Port Term			4,016,545						(4,016,545)			
11 SS7 Link		590,061						(118,012)		(472,049)		
12 STP Investment		1,145,026						(229,005)		(916,021)		
13 80% of Tandem Switch								15,201,782		(15,201,782)		
14 Shared DS3/DS1 Muxes & TST Reinitialization								6,224,830		(6,224,830)		
15 DS1/VG Mux Analog EO				1,223,664						(1,223,664)		
16 Host Remote Links								5,758,538		(5,758,538)		
17 COE					68,553,670	(37,879,952)					(32,674,484)	2,000,767
18 USF LTS						(69,733,304)						
19 USF						105,056,102			6,377,630			1,690,430
19a VG/WATS, MT, TGH									1,245,370			
19b Audit & Video									404,418			
19c High Cap & DDS									691,545			
19d DS-1 Sub Cat									307,910			
19e Density Zone 1									871,260			
19f Density Zone 2									283,289			
19g Density Zone 3									311,516			
19h DS-3 Sub Cat									1,859,515			
19i Density Zone 1									279,885			
19j Density Zone 2									92,135			
19k Density Zone 3									30,787			
20 Marketing					(10,066,860)	(92,275,420)	118,916,000	(2,608,271)	(6,445,536)	(7,519,913)		
20a VG/WATS, MT, TGH									(67,898)			
20b High Cap & DDS									(1,737,894)			
20c DS-1 Sub Cat									(49,349)			
20d Density Zone 1									(827,504)			
20e Density Zone 2									(382,379)			
20f Density Zone 3									(1,315,764)			
20g DS-3 Sub Cat									(22,472)			
20h Density Zone 1									(1,014,424)			
20i Density Zone 2									(374,843)			
20j Density Zone 3									(653,010)			